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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The determination of the Bolivian Government to complete uneconomic and costly railroad and highway projects is aggravating the financial instability of a nation which has failed to meet payments on the major portion of its external debts for more than a decade. (Item No. 1, B)

The USSR and its European Satellites have displayed the same tactics in the recently concluded negotiations which resulted in a world convention on road traffic that they have consistently employed in other UN activities at the technical economic level. Though continuing to cooperate generally with the Economic Commission for Europe, the USSR did not send a delegation to the conference. On the other hand, Polish, Czechoslovak and Bulgarian delegations attended the conference and signed the convention. (Item No. 2, B)

The US Department of State has authorized the US Legation, Bucharest, to make representations to the Rumanian Government with respect to an apparent plan to force the American Export Lines to use as its Constanza agent SOVROMTRANSPORT, a joint Soviet-Rumanian enterprise. Security considerations are probably responsible for the Soviet determination that US vessels loading in Communist ports in the Black Sea shall no longer use agents of their own choice. This is an extension of a policy which has long applied to shipping operations in Soviet ports, but runs counter to accepted international shipping practice. (Item No. 3, B)

A showdown on the effectiveness of the Nationalist "blockade" of Shanghai may occur in connection with the scheduled departure from this port of two US-flag vessels in defiance of Nationalist threats. (Item No. 4, A)

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The USSR may be expected to view with suspicion the impending revival of US aviation interests in Iran and to repeat its charges of Iranian subservience to Western imperialism. (Item No. 5, B)

The recently established joint Soviet-Bulgarian airline, TABSO, will organize and exploit civil air communications within Bulgaria as well as those services formerly operated by the Bulgarian domestic airline (BVL) between Sofia and other Satellite capitals. (Item No. 6, C)

The proposal that Swissair be designated as a reserve air transport component of the Swiss Air Force, if approved, may serve as a model for other nations of Western Europe. (Item No. 7, C)

The recent success of the Government of India in obtaining acceptance by a Philippine air mission of a bilateral air agreement containing restrictive clauses will strengthen India's position in its future negotiations with the UK. (Item No. 8, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The determination of the Bolivian Government to complete uneconomic and costly railroad and highway projects is aggravating the financial instability of a nation which has failed to meet payments on the major portion of its external debts for more than a decade.

Current railroad construction projects include a line from La Paz to Beni, as well as three lines which will focus on the Eastern Plain city of Santa Cruz from Cochabamba, on the Andes Highland, from Corumba, over the Brazilian border, and from Yacuiba, near the Argentine border. Highway construction in progress will link Cochabamba with Santa Cruz and Potosi with Oran in Argentina. A pipe line has already been completed, moreover, from Camiri, 200 miles south of Santa Cruz, westward to Cochabamba with a branch to Sucre. Because of its economic and political interests in the area, the Argentine Government is providing substantial financial assistance toward the construction of the Yacuiba-Santa Cruz railway, which will transport crude oil to Argentine refineries, and the southern end of the Oran-Potosi highway (as far north as Tarija). The Bolivian Government, in return, will liquidate its debt by payments in natural resources from the territory which these transport facilities will open up.

An example of a domestic project which is increasing Bolivia's external debt, with little likelihood of increasing the Government's revenue and its foreign exchange holdings sufficiently to service the debt, is the Cochabamba-Santa Cruz highway, now under construction. The Bolivian Cabinet considers this highway to be the most important public work under construction, anticipating that it will effect an economic and political integration of the Eastern Plain with the Andes Highland. By mid-1949, however, with only 215 of the total 501 kilometers partially or entirely completed, about \$15 million had been spent, and an additional \$26 million will be required to complete the highway. (The 1942 estimate of total cost was \$7,661,000.) While negotiations are underway for additional loans to complete the highway, the Bolivian Government is continuing slow construction on the railroad which will parallel the highway. This rail line will divert from the highway much of the traffic which might provide at least partial economic justification for its completion. It appears unlikely, however, that there would be enough traffic in any event to make the highway profitable.

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On the other hand, the Cochabamba-Santa Cruz-Corumba railway, when completed, will be of considerable strategic significance, since it will form part of a direct transcontinental railroad, linking the Chilean ports Arica and Antofagasta with Santos, the Brazilian port serving Sao Paulo. This route, which will be meter gauge to Sao Paulo, will therefore eliminate the present strategic advantage to Argentina accruing from possession of the only railway system for transcontinental transport requirements. From an economic standpoint, moreover, this route, together with the line from Santa Cruz to Argentina, will provide Bolivia's Eastern Plain with outlets in three directions for its petroleum, agricultural products and other resources. Bolivia's economic bargaining position, particularly vis-a-vis Argentina, which does not produce sufficient petroleum for its own needs, will therefore be strengthened to a certain extent. Despite the considerable advantages of the Bolivian development program, however, serious damage to the country's financial stability may ensue, unless the program is re-examined without the bias of local political pressure to eliminate or postpone those projects which would be least self-amortizing, and to encourage those of greater economic justification. (Confidential)

2. The USSR and its European Satellites have displayed the same tactics in the recently concluded negotiations which resulted in a world convention on road traffic that they have consistently employed in other UN activities at the technical economic level. Though continuing to cooperate generally with the Economic Commission for Europe (ECE), the USSR did not send a delegation to the conference. On the other hand, Polish, Czechoslovak and Bulgarian delegations attended the conference and signed the convention.

The only indication of lack of cooperation on the part of the Satellites occurred in connection with a separate protocol which makes provision for eventual adherence to the convention by presently occupied areas. The Polish, Czechoslovak and Bulgarian delegations abstained from voting on this proposal and refrained from signing the protocol. It seems clear that they desired to avoid any action which might appear to recognize the existence of the Western German Republic.

Yugoslavia, though signing the convention, reserved its position with respect to the protocol. This action enabled the Yugoslav delegation to evidence its lack of solidarity with the Satellites, while at the same time failing to follow the course desired by the Western European countries with respect to the occupied areas.

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The foregoing circumstances indicate that the USSR is still determined to participate in no international arrangements with the West unless such commitments bring compelling advantages to the Soviet Union. It is willing, however, to permit its Satellites to maintain a measure of cooperation with Western Europe, perceiving in this action advantages in the form of possible increased trade and sources of intelligence on the inner workings of international agreements to which it is not a direct party. (Confidential)

3. The US Department of State has authorized the US Legation, Bucharest, to make representations to the Rumanian Government with respect to an apparent plan to force the American Export Lines to use as its Constanza agent SOVROMTRANSPORT, a joint Soviet-Rumanian enterprise. The company's present agent is an Italian citizen named Solari, who has long been a resident of Rumania. According to Solari, the Rumanian Government has notified him that SOVROMTRANSPORT is the only authorized ship's agent in the country. Meanwhile, SOVROMTRANSPORT itself has directly contacted Solari relative to its assumption of the American Export Line representation. (SOVROMTRANSPORT was the Constanza agent of the Kettleman Hills, a US tanker which recently transported a cargo of petroleum to Dairen. See TG Weekly No. 79)

Security considerations are probably responsible for the Soviet determination that US vessels loading in Communist ports in the Black Sea shall no longer use agents of their own choice. This is an extension of a policy which has long applied to shipping operations in Soviet ports, but runs counter to accepted international shipping practice. (Confidential)

4. A showdown on the effectiveness of the Nationalist "blockade" of Shanghai may occur in connection with the scheduled departure from this port of two US-flag vessels in defiance of Nationalist threats.

The Flying Independent and the Flying Clipper, both Isbrandtsen Line cargo vessels, recently entered Shanghai (see TG Weekly No. 80), although the company had not secured clearance from the Nationalist Government prior to arrival and the company's request for protection of the US Navy in disregarding the "blockade" had been denied. The Flying Independent was halted at the entrance of the Yangtze by a Nationalist naval craft. It was permitted to proceed after a short delay, however, on the basis of an exchange of messages in which the Flying Independent's Master advised the naval craft that his vessel carried mail for the US Consulate General, Shanghai, and intended to

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leave the port with US passengers. (The naval unit appears to have defected to the Communists shortly after this incident, probably as a result of mutiny, and moored in the vicinity of the two Isbrandtsen vessels inside the port of Shanghai.)

A protest concerning this incident was subsequently made to the US Consulate in Canton by the Chinese Nationalist Foreign Office, which alleged that the vessel had obtained permission from the Nationalist naval craft to proceed into Shanghai by falsely claiming that the US and Chinese Nationalist Governments had agreed to the voyage for the purpose of evacuating US nationals. The Masters of the Isbrandtsen vessels vigorously deny this assertion, although they admit that their messages to the commanding officer of the Chinese craft omitted any reference to the fact that their vessels were carrying cargo for consignees in the Communist port. The Foreign Office has advised the US Consul that the Isbrandtsen vessels will be permitted to leave Shanghai if they are carrying neither passengers nor freight. Otherwise they will be subject to "appropriate action" by the Chinese Navy. Unauthorized departure, moreover, would prejudice future clearances for passenger vessels which the US might wish to send to Shanghai to evacuate US nationals.

The status of the vessels has been further complicated by the threat of a serious incident in connection with 127 Korean refugees, who are threatening to board the Flying Independent. The Shanghai representative of Isbrandtsen apparently sold reservations to this group for passage to South Korea, although the vessel, a cargo ship, cannot carry this number of passengers without a waiver of existing safety regulations from the US Coast Guard. Since the waiver has not been obtained, the vessel cannot transport the refugees without violating US law. Meanwhile, however, many of the refugees, confident of evacuation, have disposed of their possessions and are destitute. If they board the Flying Independent, they could probably not be evicted without the use of force, which might be impractical in view of the sympathies of local authorities for the refugees.

Both Isbrandtsen vessels are scheduled to sail on 28 September and plan to carry both passengers and cargo. If this occurs, there is some possibility that the vessels will be intercepted by a Nationalist naval unit. While there is little likelihood that the vessels would be sunk, the Nationalists might conceivably escort them to a Nationalist-controlled port on Taiwan or in South China. Any such action might confront the US with the necessity of either: (1) taking issue with the Chinese Nationalists in defense of operations by US-flag vessels which did not bear prior US approval; or (2) risking a loss of US prestige by failing to oppose vigorously interference with US-flag vessels.

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On the other hand, if the Isbrandtsen vessels are permitted to leave Shanghai unmolested, the Chinese Nationalists will have clearly revealed their inability or disinclination to enforce the blockade with respect to US-flag vessels. This weakness might well invite further "blockade running" by the vessels of other nations, and result in the virtual collapse of the Shanghai "blockade." (Secret)

CIVIL AVIATION

5. The USSR may be expected to view with suspicion the impending revival of US aviation interests in Iran and to repeat its charges of Iranian subservience to Western imperialism. International operations of Iranian Airways (Iranair), henceforth to be conducted jointly with the large US irregular carrier Transocean Air Lines, will use American-owned and US-registered aircraft.

Transocean will probably effect some economies from its contract with Iranair because it has a similar commitment for international air services with the Government of Pakistan, which involves operations through Iran. Iranair will benefit by the experienced supervision, including maintenance and repair, to be provided by Transocean, and may now recover from financial difficulties which have plagued its past operations. (Secret)

6. The recently established joint Soviet-Bulgarian airline, TABSO, will organize and exploit civil air communications within Bulgaria, as well as those services formerly operated by the Bulgarian domestic airline (BVL) between Sofia and other Satellite capitals. TABSO has already inaugurated daily passenger and freight flights along the following internal routes: Sofia-Plovdiv-Burgas-Varna and Sofia-Gorna-Oryahovitsa-Varna-Burgas.

TABSO presumably acquired the 3 JU-52's, 2 LI-2's (Soviet-manufactured DC-3's), and 1 A.A.C. (French-manufactured transport, similar to the JU-52) formerly operated by BVL. On the other hand, the Bulgarian press reports that TABSO has procured new equipment described as "the last word of the Soviet aviation industry". Although the flight crews and ground staff formerly employed by BVL will probably be retained, unconfirmed reports indicate that Soviet pilots will be employed on some of TABSO's flights. (Restricted)

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7. The proposal that Swissair be designated as a reserve air transport component of the Swiss Air Force recalls a suggestion made in 1948 by the Director of KLM, the Dutch national airline, that the aircraft and personnel of KLM be available for immediate incorporation into an Allied Air Transport Command in the event of war. The Swiss plan, therefore, could acquire added significance if it serves as a model for similar projects among the other nations of Western Europe.

Swissair's fleet, which comprises a total of 29 aircraft (4 DC-4's, 14 DC-3's, 4 C-47's, 4 Convairs, and 3 smaller aircraft), will be augmented by 3 Constellations early in 1950. Swissair's flying personnel number 154, of which 50 are pilots of Swiss nationality. These pilots are commissioned or non-commissioned officers in the Swiss Air Force who have been exempted from active military duty. The projected command will probably consist of two squadrons, located at Sion and Stans where existing runways are now being extended to over 6,000 feet. (Secret)

8. The recent success of the Government of India in obtaining acceptance by a Philippine air mission of a bilateral air agreement containing restrictive clauses will strengthen India's position in its future negotiations with the UK. (The UK is operating airlines across India on a temporary permit, but has no formal agreement.)

India, which recently incorporated similar restrictions in an air agreement with Australia, has declared its basic policy to be: (1) an arbitrary division of traffic and predetermination of flight frequency with foreign airlines flying international air routes in competition with Indian airlines; and (2) denial of "fifth freedom" traffic to foreign airlines between India and Pakistan.

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If the Government of India decides to resist this pressure, the GOI may also request the renegotiation of existing bilateral agreements with the US, France, the Netherlands and Scandinavia in order to impose restrictions on all foreign airlines transiting the country. Defection from the present common policy by one or more of these countries would place the remainder on notice that India is in a position to denounce its unrevised bilateral air agreements.
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